

NSC BRIEFING

23 October 1956

BACKGROUND--BLOC "TRADE AND AID"

1. The Communist Bloc campaign to expand relations with the Free World by economic means was initiated in 1951 and consists largely of "trade and aid" programs. This Bloc effort gained momentum in 1954, with the purchase from underdeveloped countries of large quantities of surplus foodstuffs and raw materials, and has since been bolstered by Bloc offers of long-term credits and loans. When the Council was last briefed (Nov '55) the total--exclusive of arms deals--was below \$50 million. Today, the total of all loans--including arms loans--to non-Bloc countries is \$1.2 billion, three-quarters of it for economic development. More than half of these credits have been extended during the first nine months of 1956.

2. The USSR itself has granted the majority of these loans and credits. Its total for non-Bloc economic development comes to some \$650 million, of which \$400 million was provided during 1956. The European Satellites have also advanced some \$225 million in development credits to non-Bloc nations, almost all of it this year. Communist China, a relative newcomer to the field, has been the first Bloc country to make outright grants to non-Communist countries: \$22.4 million to Cambodia this June and \$12.5 million to Nepal this October. The rest of the Bloc total of \$1.2 billion is made up of loans and credits for arms. Since late 1955, the Bloc has extended to Egypt and other Arab States, and to Afghanistan, over \$300 million in credits for military purchases. Half of this amount was contracted for during 1956.

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3. The following details are presented under these two separate headings, Economic Development and Military Aid.

Economic Development. The Soviet Bloc's loans and credits for non-Bloc economic development embrace a wide range of capital equipment exports, plant installations and technical assistance. The USSR, itself, has created a special agency to supervise its portion of this program.

Bloc economic aid agreements with three non-Communist countries--India, Afghanistan, Indonesia--and with Yugoslavia, all concluded this year, account for \$850 million of the Bloc's total \$900 million economic aid loans and credits. With the exception of this year's Soviet extension of a \$100 million "open" line of credit to Indonesia, Bloc loans have been designed to provide specific capital equipment or finance local construction projects desired by recipients, including necessary technical assistance by Bloc specialists, and the training--at home, or in the Bloc--of local operating personnel.

The other agreements provide for a variety of development projects including an aluminum complex (Yugoslavia), a steel mill (India), highway construction (Afghanistan), as well as such generally useful items as cement plants, sugar mills, textile, fertilizer, and ceramic plants, mineral extraction and processing, and power facilities.

From the USSR's viewpoint, at least, the export of much of the equipment provided for in these agreements provides a desirable outlet for the products of its growing heavy industries. These agreements, in many cases, additionally provide for return to the USSR of useful raw materials--example, industrial diamonds from

India--or foodstuffs which the Bloc does not produce as plentifully as it does industrial goods.

In comparison with Free World credit offerings to underdeveloped nations, both the Bloc's interest charges (ranging from 2% to 2.5%) and repayment periods (extending up to 30 years) are more favorable. Bloc willingness to accept local commodities and local currencies in repayment is a further attraction.

Military Aid. Bloc military assistance to the Near and Middle East, since its beginning in mid-1955, has involved sales authorized and regulated by the USSR, although actual negotiations and contracts have usually been with Czechoslovakia (recently, Poland has negotiated a few such contracts).

These arms sales now total more than \$300 million. Repayment schedules, calling for exports from recipients over a period of years, make it certain that the Bloc will have a major role in the foreign trade of these countries in the future.

The first of these arms deals--with Egypt in mid-1955--ended up with contracts valued at \$160 million. During 1956, additional sales have raised Egypt's obligation for Bloc arms to at least \$250 million.

Syria, which was first approached by the USSR in early 1955, concluded its first Bloc deal in December of that year. Since then, Syrian contracts with the Bloc, worth at least \$35 million, have been concluded. Active negotiations are continuing and Syrian purchases of Bloc arms and military equipment may now total \$45 million.

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Additional offers of Bloc arms have been made to other
Middle East countries. An arrangement to provide arms to Yemen

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	has apparently been concluded	

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4. For specific projects, and the loans involved, see attached
table.

SINO-SOVIET BLOC AID TO NONBLOC COUNTRIES
(millions of US dollars)

<u>RECIPIENT</u>	<u>1955</u>	<u>1956</u>	<u>TOTAL AMOUNT</u>	<u>SOURCE</u>	<u>MAJOR PROJECTS OR EQUIPMENT</u>
YUGOSLAVIA	194.0	87.5 87.5 75.0 20.0	281.5 87.5 75.0 20.0	USSR East Germany Czechoslovakia Poland	Aluminum Plant, Mining Equipment Aluminum Plant Unspecified Capital Goods Transportation Equipment, Mining Machinery
	<u>194.0</u>	<u>270.0</u>	<u>464.0</u>		
EGYPT	160.0	90.0 1.2	250.0 1.2	USSR, Czech, Poland Czechoslovakia	Arms, Military Equipment, Ceramics Plant
	<u>160.0</u>	<u>91.2</u>	<u>251.2</u>		
AFGHANISTAN	6.8	100.0	106.8	USSR	Road Construction, Hydroelectric Station, Irrigation Work, Airfield Construction
	15.0	10.6 25.0	25.6 25.0	Czechoslovakia USSR, Czech	Cement Plant, Ceramic Plant Arms, Military Equipment
	<u>21.8</u>	<u>135.6</u>	<u>157.4</u>		
INDIA		115.5 6.3 1.9	115.5 6.3 1.9	USSR East Germany Czechoslovakia	Steel Mill, Diamond Mining Film Factory Sugar Factory
		<u>123.7</u>	<u>123.7</u>		
INDONESIA		100.0	100.0	USSR	Line of Credit
	7.9	4.4	7.9 4.4	East Germany Czechoslovakia	Sugar Factory Tire Factory
	<u>7.9</u>	<u>104.4</u>	<u>112.3</u>		
SYRIA		35.0	35.0	USSR, Czech, Poland	Arms, Military Equipment
CAMBODIA		22.4	22.4	Communist China	Grant for cement plant, irrigation work, textile factory
FINLAND	20.0		20.0	USSR	Gold Loans
ARGENTINA	19.0		19.0	USSR	Transportation Equipment
NEPAL		12.5	12.5	Communist China	Grant for General Economic Development
ICELAND		1.7	1.7	Soviet Bloc	Hydroelectric Plants

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